

**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION
INDUSTRIAL DEVELOPMENT BONDS**

Meeting Date: June 19, 2007

Request to Amend Initial and Final Resolution for Tax Exempt Bond

Prepared by: *Patricia Tanous*

Issuer:	California Statewide Community Development Authority	Amount Requested:	\$10,000,000 (TE)
Borrower:	Western Milling, LLC and/or its affiliates	Application No.:	07-0005
User:	Western Milling, LLC and/or its affiliates	IR & FR No.:	07-0005
Location:	City of Famoso, Kern County		

Borrower/User/Background: Western Milling, LLC (“the Company” or “Western Milling”) incorporated in November 2000 in California. The majority shareholder is Kruse Investment Company (66.2%). The remaining 33.8% is held by Kruse family members and other investors, each of whom hold no more than a 7% interest. Western Milling, LLC and/or its affiliates will be the Borrower of the bond proceeds and the User of the facility.

Current Request: At the March 20, 2007 Board Meeting, Initial and Final Resolution Number 07-0005 for \$10,000,000 was approved. The Company has requested a change in the financing structure from a letter of credit backed public offering through Bank of the West to a private placement with a Qualified Institutional Buyer (“QIB”), namely GE Capital Public Finance. The resolution requesting this change is attached. The Project remains the same as presented at the March 20, 2007 CIDFAC meeting. For information about the Project or the Borrower, please see the attached staff report (Attachment A) that was presented at the March 20, 2007 meeting.

Financing Details: The CSCDA will issue the tax-exempt bonds on a private placement basis. GE Capital Public Finance (GECPPF), which is a QIB as defined by the Securities and Exchange Commission’s (SEC) Rule 144A, will purchase the bonds. This transaction will require the following:

- The bonds will be guaranteed by Western Milling, LLC;
- The bonds will be secured by a first deed of trust or first mortgage on Western Milling, LLC’s fee simple interest in the Premises and improvements and by a blanket lien on all equipment at the Project;
- Western Milling, LLC will execute a Mortgage/Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing, and an Assignments of Rents and Leases, plus other documentation and financing statements deemed necessary by GECPPF, all of which will evidence a first lien covering all present and future leases, rents, income, profits, security deposits, fixtures and personal property whether now owned or hereafter acquired by Western Milling, LLC and from time to time installed and/or used in the maintenance and operation of the Premises. No secondary financing or liens will be permitted, and the entire balance of the loan will be due on sale.
- The bond will be issued as a single \$10,000,000 note with the loan structured as a fixed rate, tax-exempt financing repayable over fifteen years. Western Milling, LLC has elected to float

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with the market from the time of this proposal until escrow funding as described in the proposal letter dated April 18, 2007. As of June 8, 2007, the current interest rate is 4.85%.

The bonds will be issued in accordance with CIDFAC's private placement policy, which has the following requirements:

- The bond purchaser must be a Sophisticated Investor as defined under SEC Rule 144A.
- The Sophisticated Investor must sign a "traveling" sophisticated investor letter outlining the requirement and restrictions, which will follow the deal in the event the bonds are sold or traded at a later date.
- The security of the private placement debt must be collateral provided by the Borrower.
- The bonds will be issued in minimum denominations of \$250,000.

Financing team:

Issuer: CSCDA

Bond Counsel: Gilmore and Bell, P.C.

Financial Advisor: W.R. Taylor & Company, LLC

Private Placement Purchaser: GE Capital Public Finance

Recommendation: Staff recommends approval of the Amendment to Initial and Final Resolution reflecting the change in the finance structure from a letter of credit backed public offering to a private placement for an amount not to exceed \$10,000,000 in tax-exempt bonds for Western Milling, LLC and/or its affiliates, subject to staff analysis and approval of final bond documents, including receipt of bond counsel opinion as set forth in Initial and Final Resolution Number 07-0005.

AMENDMENT TO
INITIAL AND FINAL RESOLUTION
OF THE
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION (CIDFAC)
INDUSTRIAL DEVELOPMENT BONDS
IR/FR No. 07-0005

WHEREAS, the California Statewide Communities Development Authority (CSCDA) (Authority) has transmitted the application of Western Milling LLC and/or its affiliates (Applicant) for the issuance of \$10,000,000 of tax exempt bonds under the provisions of the California Industrial Development Financing Act, and has informed the California Industrial Development Financing Advisory Commission (the Commission) that it has adopted a resolution declaring its intention to issue such bonds and that the County of Kern has held a public hearing regarding the issuance of the bonds and has approved the issuance of the bonds by the Authority; and

WHEREAS, the Commission has reviewed the application and the materials submitted with the application.

NOW, THEREFORE, the Commission resolves as follows;

Section 1. The Commission, based on its review of the application and the information submitted therewith, does determine that:

(a) the public benefits from the acquisition of the facility described in the application likely will substantially exceed any public detriment from the issuance of the bonds in the estimated principal amount of \$10,000,000; and

(b) use of the Project described in the application and the operation of the facility described in the application is reasonably necessary to prevent the relocation of

substantial operations of the Applicant from an area within the State of California to an area outside of the State of California.

Section 2. The Commission conditionally finds that the proposed issuance of the bonds qualifies under the provisions of Article 5 of Title 10 of the Government Code, and further finds that:

(a) the bonds will be adequately secured and the funds available to the Applicant will apparently be sufficient to pay the principal of and interest on the bonds to be issued; and

(b) based on its review of the preliminary material submitted to it and as provided for under Government Code Section 91571, the proposed issuance will be fair, just and equitable to a purchaser of the bonds, and that the bonds proposed to be issued and the methods to be used by the Authority in issuing them will not be such as will work a fraud upon the purchaser thereof.

Section 3. The Commission determines that it is appropriate to the proposed transaction that the qualification of the proposed issuance be subject to the following conditions:

(a) that the final legal documents, when ready for execution, be submitted for review by Commission staff. Submitted documents shall include:

- (i) Loan Agreement,
- (ii) Escrow Agreement,
- (iii) Opinion of Bond Counsel;
- (iv) Bond Resolution;
- (v) Copy of the Note;
- (vi) Tax Compliance Agreement;

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(vii) Other documents which, in the opinion of Commission staff, are necessary to the review of the transaction;

(b) that the Commission staff determine that the final documents associated with the transaction have been developed in form and content substantially similar to the representations in the application on which the findings under Section 2 above are based;

(c) that the bonds, when issued, are within the maximum limitation of bonds authorized in the California Industrial Development Financing Act (Section 91573(a) of California Government Code);

(d) that the Commission receive all applicable fees prior to the issuance of the bonds or that bond documents indicate that such fees are to be paid from the proceeds of the bonds; and

(e) that the Applicant has agreed to comply with Section 91533(l) of the Government Code relating to the payment of prevailing wages.

Section 4. This Resolution shall cease to be effective if the above-described bonds have not been issued within six months after the date of adoption of this Resolution.

Section 5. In compliance with the provision of the California Industrial Development Financing Act (Section 91754 California Government Code), the qualification of the proposed bond issue by this resolution is permissive only, and does not constitute a recommendation or endorsement of the bonds so qualified by the Commission.

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CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION INDUSTRIAL DEVELOPMENT BONDS

Meeting Date: March 20, 2007

Request for Initial Resolution and Final Resolution and Tax-Exempt Bond Allocation Approval

Prepared by: *Patricia Tanous*

Issuer:	California Statewide Community Development Authority	Amount Requested:	\$10,000,000 (TE)
Borrower:	Western Milling, LLC and/or its affiliates	Application No.:	07-0005
User:	Western Milling, LLC and/or its affiliates	IR & FR No.:	07-0005
Location:	City of Famoso, Kern County		

Borrower/User: Western Milling, LLC (“the Company” or “Western Milling”) incorporated in November 2000 in California. Shareholders are Kruse Investment Company (66.2%). The remaining 33.8% is held by Kruse family members and other investors, each of whom hold no more than a 7% interest. Western Milling, LLC and/or its affiliates will be the Borrower of the bond proceeds and the User of the facility.

The Company headquarters is in Goshen, California. The Company manufactures feed and grain for the dairy industry and for animal sack feed for independent animal feed stores, zoos and thoroughbred horse racing operations. The Company’s Goshen facility is one of the largest single grain milling operations in the country.

Background: In December 2003, the Company purchased approximately seven acres in Famoso, California. At that time, the goal was to expand the grain receiving and milling operations in Kern County to provide better product and delivery services to the large number of existing and newly-constructed dairies in the southern part of the San Joaquin Valley. The construction of the facility began in May 2006 and was completed in January 2007. The benefits of purchasing the Famoso location included shortened delivery routes. The main function of the Famoso facility is to receive commodities shipments of corn and dried distillers grain (a by product from the production of ethanol in the mid-West), process it into feed, and deliver it to the dairies generally within a 90 mile radius. The new facility also will enable the Company to store, process and deliver other commodities such as canola, cotton seed and corn gluten for use in animal feed.

Project Information: Bond proceeds will be used to reimburse the Company’s cost to construct state-of-the-art grain rolling facility, commodity barn, and a rail spur, which allows the Company to bring 100 car unit trains from the Union Pacific main line.

Anticipated Timeline: Construction began in May 2006 and was completed in January 2007.

Prior Actions/Financing: None.

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Local Government Support: Assembly member Nicole M. Parra (representing the 30th Assembly District) submitted a letter expressing her support for the Project (Attachment A). The letter states that the Company has made substantial economic contributions to the area in recent years.

Statutory Criteria: 1) Public Benefits, 2) Relocation and 3) Bond Issue Qualification. The points noted below have been awarded based on evaluation consistent with CDLAC guidelines. However, CDLAC does not require the evaluation of points for all statutory criteria.

- 1) **PUBLIC BENEFITS:** The staff assigned a total of 35 verifiable points to the Project, which are detailed below:

Community Economic Need (15 points):

Unemployment Rate of Project Area (5 points): The unemployment rate for the Project area is 7.6%, while the statewide average unemployment rate in California is 4.8%. Therefore, the unemployment rate for the Project area is 158% of the statewide rate.

Poverty Rate of Project Area (5 points): The poverty rate for the Project area is 21.2%, which is 159.39% of the statewide average of 13.3%.

Median Family Income (5 points): The Project is located in Kern County, where the median family income is \$24,190 (information gathered from the City of McFarland, which is the closest city to Famoso that collects income information). Given that the median family income for the State of California is \$61,476, the median family income for the Project area is 39.35% of the statewide average.

Employment Benefits (Job Creation/Retention = 0 points): Although the Company did not meet the minimum point threshold for job creation, the Company represents it currently employs 25 employees to support the activities at the Famoso facility and anticipates hiring an additional six employees to support the Famoso facility within two years of Project completion.

Health Care Benefits (5 points): The Company provided documentation of its contribution to the medical and dental insurance for its 17 of its 25 employees and their families. The contribution translates into an average of \$672.82 per month toward the health care benefits per employee. The remaining eight employees have declined the Company's medical and dental benefits.

Average Hourly Wage (5 points): The Company's average hourly wage is \$22.74, while the Metropolitan Statistical Area (MSA) for Bakersfield has an average manufacturing hourly wage of \$15.92. Therefore, the Company's average hourly wage is 143% of the MSA wage for Bakersfield.

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Land Use/Energy Efficiency (5 points): The Company provided letters from Effective Air Systems Corp. and Cunningham & Associates that verify that all equipment provided for the Project was supplied with energy efficient motors. Furthermore, the Company provided a letter from Blair Electric stating that all lighting fixtures and motors installed by Blair Electric in Western Milling's Famoso facility are California Title 24 Energy Compliant (see Attachments B, C, & D).

Leveraging (5 points): The total cost for this Project is \$16,796,159. The Company plans to finance the Project with \$10,000,000, or 60% of the cost, in tax-exempt bonds and with \$6,796,159, or 40%, in a conventional loan.

- 2) **RELOCATION OF COMPANY OPERATIONS (No point evaluation required):** The Company will remain at its current location.
- 3) **QUALIFICATION OF BOND ISSUANCE (No point evaluation required):** Based upon the proposed financial structure and based upon the application and other materials submitted to CIDFAC for the proposed Project, staff believes the bonds that will be issued in connection with the Project: (a) will be adequately secured; (b) will be fair, just, and equitable to a purchaser of the bonds; and (c) will not work a fraud upon the bond purchaser. Final determination of qualification of the bonds will be subject to review of final bond documents prior to the issuance of bonds.

Status of Permit/Other Required Approvals: California Statewide Community Development Authority (CSCDA) adopted a resolution approving the financing of the Project on July 20, 2006.

A TEFRA Hearing was held on December 12, 2006, by the Board of Supervisors of Kern County approving the issuance of revenue bonds by the California Statewide Communities Development Authority (CSCDA). No comments were received in support of or in opposition to the Project.

The Company received Authority to Construct permits from the San Joaquin Valley Air Pollution Control District in May 2006. Construction was completed in January 2007. The San Joaquin Valley Air Pollution Control District requires that the facility operates for at least 60 days prior to inspection for its Permit to Operate. This inspection is expected to occur in March 2007.

Financing Details:

Type of Offering:	Public Offering
Fixed/Variable:	Variable Rate
Loan Term:	25 years
Credit Enhancement:	Direct-Pay Letter of Credit from Bank of the West
Bond Rating:	At least "A+/A-1" Standard & Poors or another nationally recognized rating agency.

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Financing Team:

Issuer: CSCDA
Bond Counsel: Gilmore and Bell, P.C.
Underwriter: W.R. Taylor & Company, LLC

Legal Questionnaire: The Staff has reviewed the Borrower's/User's responses to the questions contained in the Legal Status portion of the Application. There was no information disclosed that raises questions concerning the financial viability or legal integrity of the applicants.

Recommendation: Staff recommends approval of Initial and Final Resolution Nos. 07-0005 in an amount not to exceed \$10,000,000 of tax-exempt bonds for Western Milling, LLC and/or its affiliates, which is subject to staff analysis and approval of final bond documents, including receipt of bond counsel opinions and CDLAC allocation approval as set forth in the Initial and Final Resolution No. 07-0005.

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**Borrower/User: WESTERN MILLING,
LLC AND/OR ITS AFFILIATES**
Total Bond Amount: \$10,000,000 (TE)
California Statewide Community
Development Authority (CSCDA)
City of Famoso, Kern County
Application No. 07-0005
March 20, 2007

STAFF SUMMARY – CIDFAC

Prepared by: *Patricia Tanous*

ISSUE:

On behalf of Western Milling, LLC and/or affiliates (the “Borrower”), the CSCDA (the “Issuer”) requests approval of the Initial and Final Resolution No. 07-0005 for an amount up to \$10,000,000 in tax-exempt bonds. The bonds will be used to finance the construction of a new building and the purchase of equipment.

CSCDA. The Company received approval for financing on July 20, 2006.

CDLAC. The Company anticipates applying for CDLAC allocation in April 2007.

TEFRA. A TEFRA hearing was held by of Supervisors of Kern County on December 12, 2006, and no comments were received in support or in opposition to the Project.

BORROWER/USER:

Western Milling, LLC (“the Company” or “Western Milling”) incorporated in November 2000 in California.

The principal stockholders of the Company are as follows:

Kruse Investment Co.....	66.2%
Tony F. Correia.....	7.08%
Secap, a Partnership.....	4.50%
Ejnar Knudsen.....	4.07%
Doug Kruse	3.33%
Other investors with less than a 3% interest	14.82%
Total:	100%

The Company headquarters is in Goshen, California. The Company manufactures feed and grain for the dairy industry and for animal sack feed for independent animal feed stores, zoos and thoroughbred horse racing operations. The Company’s Goshen facility is one of the largest single grain milling operations in the country.

In December 2003, the Company purchased approximately seven acres in Famoso, California. At that time, the goal was to expand the grain receiving and milling operations in Kern County to

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provide better product and delivery services to the large number of existing and newly-constructed dairies in the southern part of the San Joaquin Valley. The construction of the facility began in May 2006 and was completed in January 2007. The benefits of purchasing the Famoso location included shortened delivery routes. The main function of the Famoso facility is to receive commodities shipments of corn and dried distillers grain (a by product from the production of ethanol in the mid-West), process it into feed, and deliver it to the dairies generally within a 90 mile radius. The new facility also will enable the Company to store, process and deliver other commodities such as canola, cotton seed and corn gluten for use in animal feed.

Legal Questionnaire. The Staff has reviewed the Borrower's/User's responses to the questions contained in the Legal Status portion of the Application. There was no information disclosed that raises questions concerning the financial viability or legal integrity of the applicants.

Prior Actions and Financings. None.

LOCAL GOVERNMENT SUPPORT:

Assembly member Nicole M. Parra (representing the 30th Assembly District) submitted a letter expressing her support for the Project (Attachment A). The letter states that the Company has made substantial economic contributions to the area in recent years.

PROJECT INFORMATION:

Bond proceeds will be used to reimburse the Company's cost to construct state-of-the-art grain rolling facility, commodity barn, and a rail spur, which allows the Company to bring 100 car unit trains from the Union Pacific main line.

Anticipated Timeline. Construction began in May 2006 and was completed in January 2007.

Permitting and Environmental Approvals. The Company received Authority to Construct permits from the San Joaquin Valley Air Pollution Control District in May 2006. Construction was completed in January 2007. The San Joaquin Valley Air Pollution Control District requires that the facility operates for at least 60 days prior to inspection for its Permit to Operate. This inspection is expected to occur in March 2007.

STATUTORY CRITERIA: 1) Public Benefits, 2) Relocation and 3) Bond Issue Qualification. The points noted below have been awarded based on evaluation consistent with CDLAC guidelines. However, CDLAC does not require the evaluation of points for all statutory criteria.

- 1) **PUBLIC BENEFITS:** The staff assigned a total of 35 verifiable points to the Project, which are detailed below:

Community Economic Need (15 points):

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Average Hourly Wage (5 points): The Company's average hourly wage is \$22.74, while the Metropolitan Statistical Area (MSA) for Bakersfield has an average manufacturing hourly wage of \$15.92. Therefore, the Company's average hourly wage is 143% the MSA wage for Bakersfield.

Land Use/Energy Efficiency (5 points): The Company provided letters from Effective Air Systems Corp. and Cunningham & Associates that verify that all equipment provided for the Project was supplied with energy efficient motors. Furthermore, the Company provided a letter from Blair Electric stating that all lighting fixtures and motors installed by Blair Electric in Western Milling's Famoso facility are California Title 24 Energy Compliant (see Attachments B, C, & D).

Leveraging (5 points): The total cost for this Project is \$16,796,159. The Company plans to finance the Project with \$10,000,000, or 60% of the cost, in tax-exempt bonds and with \$6,796,159, or 40%, in a conventional loan.

- 2) **RELOCATION OF COMPANY OPERATIONS (No point evaluation required):** The Company will remain at its current location.
- 3) **QUALIFICATION OF BOND ISSUANCE (No point evaluation required):** Based upon the proposed financial structure and based upon the application and other materials submitted to CIDFAC for the proposed Project, staff believes the bonds that will be issued in connection with the Project: (a) will be adequately secured; (b) will be fair, just,

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and equitable to a purchaser of the bonds; and (c) will not work a fraud upon the bond purchaser. Final determination of qualification of the bonds will be subject to review of final bond documents prior to the issuance of bonds.

FINANCING DETAILS:

Type of Offering: Public Offering
Fixed/Variable: Variable Rate
Loan Term: 25 years
Credit Enhancement: Direct-Pay Letter of Credit from Bank of the West
Bond Rating: At least “A+/A-1” Standard & Poors or another nationally recognized rating agency.

FINANCING TEAM:

Issuer: CSCDA
Bond Counsel: Gilmore and Bell, P.C.
Underwriter: W.R. Taylor & Company, LLC

RECOMMENDATION:

Staff recommends approval of Initial and Final Resolution Nos. 07-0005 in an amount not to exceed \$10,000,000 of tax-exempt bonds for Western Milling, LLC and/or its affiliates, which is subject to staff analysis and approval of final bond documents, including receipt of bond counsel opinions and CDLAC allocation approval as set forth in the Initial and Final Resolution No. 07-0005.

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INITIAL AND FINAL RESOLUTION
OF THE
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION (CIDFAC)
INDUSTRIAL DEVELOPMENT BONDS
IR/FR #: 07-0005

WHEREAS, the California Statewide Communities Development Authority (CSCDA) (Authority) has transmitted the application of Western Milling, LLC and/or its affiliates, (Applicant) for the issuance of \$10,000,000 of tax exempt bonds under the provisions of the California Industrial Development Financing Act, and has informed the California Industrial Development Financing Advisory Commission (the Commission) that it has adopted a resolution declaring its intention to issue such bonds and that the County of Kern has held a public hearing regarding the issuance of the bonds and has approved the issuance of the bonds by the Authority; and

WHEREAS, the Commission has reviewed the application and the materials submitted with the application.

NOW, THEREFORE, the Commission resolves as follows;

Section 1. The Commission, based on its review of the application and the information submitted therewith, does determine that:

(a) the public benefits from the acquisition of the facility described in the application likely will substantially exceed any public detriment from the issuance of the bonds in the estimated principal amount of \$10,000,000; and

(b) use of the Project described in the application and the operation of the facility described in the application is reasonably necessary to prevent the relocation of

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substantial operations of the Applicant from an area within the State of California to an area outside of the State of California.

Section 2. The Commission conditionally finds that the proposed issuance of the bonds qualifies under the provisions of Article 5 of Title 10 of the Government Code, and further finds that:

(a) the bonds will be adequately secured and the funds available to the Applicant will apparently be sufficient to pay the principal of and interest on the bonds to be issued; and

(b) based on its review of the preliminary material submitted to it and as provided for under Government Code Section 91571, the proposed issuance will be fair, just and equitable to a purchaser of the bonds, and that the bonds proposed to be issued and the methods to be used by the Authority in issuing them will not be such as will work a fraud upon the purchaser thereof.

Section 3. The Commission determines that it is appropriate to the proposed transaction that the qualification of the proposed issuance be subject to the following conditions:

(a) that the final legal documents, when ready for execution, be submitted for review by Commission staff. Submitted documents shall include:

- (i) Loan Agreement,
- (ii) Indenture of Trust,
- (iii) Opinion of Bond Counsel
- (iv) Bond Resolution,
- (v) Letter of Credit, and

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(vi) Other documents which, in the opinion of Commission staff, are necessary to the review of the transaction;

(b) that the Commission staff determine that the final documents associated with the transaction have been developed in form and content substantially similar to the representations in the application on which the findings under Section 2. above are based;

(c) that the bonds, when issued, are within the maximum limitation of bonds authorized in the California Industrial Development Financing Act (Section 91573(a) of California Government Code);

(d) that the Commission receive all applicable fees prior to the issuance of the bonds or that bond documents indicate that such fees are to be paid from the proceeds of the bonds; and

(e) that the Applicant has agreed to comply with Section 91533(l) of the Government Code relating to the payment of prevailing wages.

Section 4. This Resolution shall cease to be effective if the above-described bonds have not been issued within six months after the date of adoption of this Resolution.

Section 5. In compliance with the provision of the California Industrial Development Financing Act (Section 91754 California Government Code), the qualification of the proposed bond issue by this resolution is permissive only, and does not constitute a recommendation or endorsement of the bonds so qualified by the Commission.